STRUCTURED FINANCE ASSOCIATION

SFA Research Corner

Serving the Underserved

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WHAT WE'RE WATCHING

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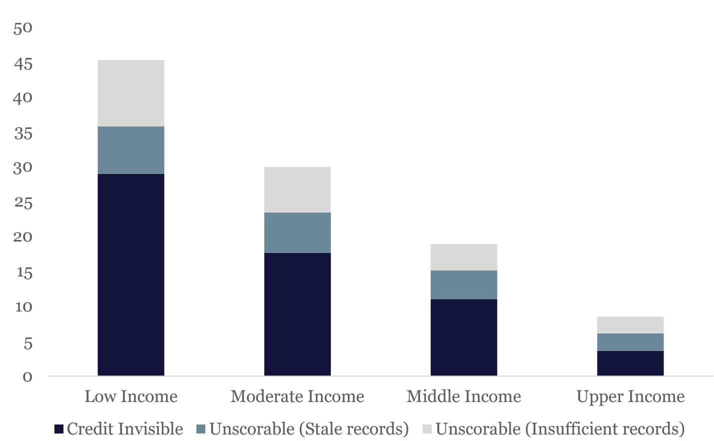
Angelo, Gordon & Co. LP, a global asset management firm, issued Gold Creek Asset Trust (GCAT) 2021-NQM1 in March. The pool is backed by 534 fixed-and floating-rate non-prime mortgage loans originated by various financial institutions and purchased by Blue River Mortgage II LLC, Angelo, Gordon's non-QM mortgage loan aggregator, as stated by a KBRA new-issue report. Unlike the majority of private-label RMBS, 41% of the GCAT 2021-NQM1 pool was originated by three entities designated as Community Development Financial Institutions (CDFIs). CDFIs are private financial institutions whose primary mission is to support community development by providing financing to low-income, low-wealth individuals—a population that has been historically underserved by traditional lenders. GCAT 2021-NQM1 exemplifies how securitization can be used as a tool to connect investment capital to underserved communities. By including CDFI-originated loans as part of a broader securitized pool, issuers can offer investors highly-rated securities that are collateralized by a diversified pool of loans. Since the CDFI loans facilitate a social mission, the securities may also help fulfill a particular ESG investment strategy. By working with loan aggregators, CDFIs, which by design are small institutions with small portfolios, can maximize their lending capacities quickly and efficiently. With these opportunities in mind, we believe more partnerships between CDFIs and the securitization markets could prove valuable in the years to come.

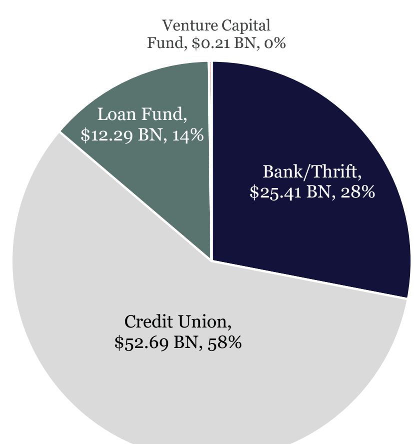
The portion of consumers in the United States who are underserved from a credit perspective is not insubstantial. The Consumer Financial Protection Bureau (CFPB) estimated that, in 2010, there were 26 million consumers in the U.S. who were "credit invisible," defined as not having a credit history with at least one of the three nationwide credit reporting agencies — Equifax, Experian, and Transunion. The CFPB identified an additional 19 million Americans as "unscorable," having too brief of a credit history, or having a credit history that was too out of date to score using the traditional credit scoring models.

Share of Consumers Who Are Credit Invisible or Unscorable (% By Income)



Source: Consumer Financial Protection Bureau

CDFI Fund 2019: $92 billion of Loans Made in Target Markets (By Community Development Institution Type)

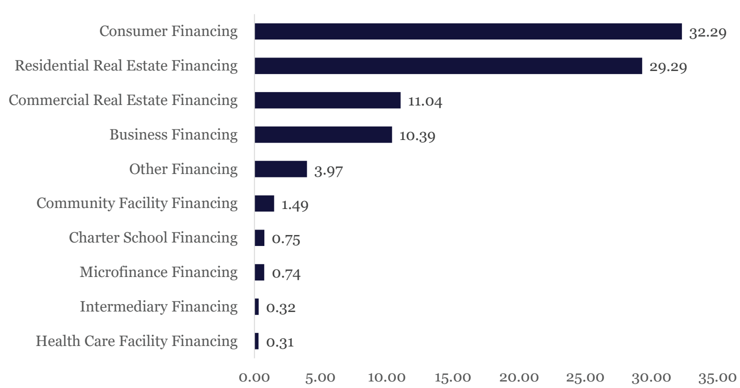


Source: CDFIFund.gov

Moreover, the CFPB has found that there is a strong relationship between income and having a scored credit record. "Almost 50[%] of consumers in low-income tracts appear to either lack a credit record entirely or have an unscored credit record (mostly because of an insufficient credit history). At higher-income levels, this incidence falls sharply. In comparison, fewer than 10[%] of consumers in upper-income tracts are credit invisible or have unscored records."

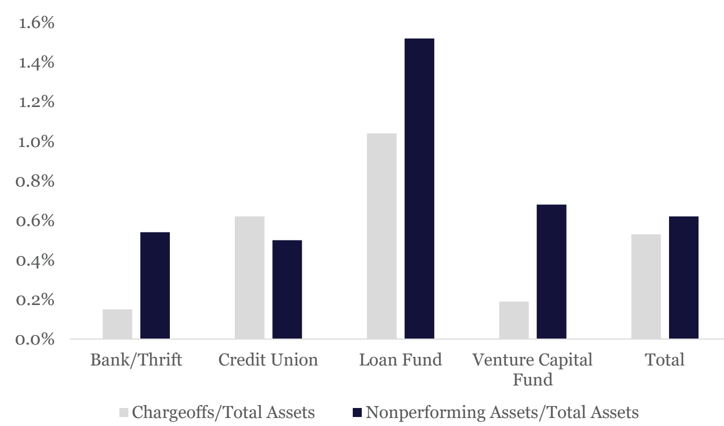
The Community Development Financial Institutions Fund ("CDFI Fund") was born out of the need to serve this credit-starved portion of the population. The CDFI Fund, a creation of the Riegle Community Development and Regulatory Improvement Act of 1994 and overseen by the U.S. Treasury, is a form of public-private partnership that lends federal funds via designated CDFIs. To become a designated CDFIs, institutions must meet specific criteria, the first of which is a primary mission of promoting community development. The designated CDFIs lend their own funds alongside the CDFI Fund's contribution on a dollar-for-dollar basis, with the combined funds used to finance a variety of activities, including mortgage, consumer and small business lending. The concept is based on the idea that lenders at the local level are in better positions to understand the nuances of their under-served communities, and therefore make better lending decisions. In 2019, CDFIs made 5 million loans, with a notional value of $92 billion to low-income individuals or people in target communities. Charge-offs as a share of total assets in 2019 were 0.53%.

CDFI Fund 2019: Type of Financing in Target Markets ($ Billions)



Source: CDFIFund.gov

CDFI Loan Performance



Source: CDFIFund.gov

CDFIs are exempt from the CFPB's Ability-to-Repay/Qualified Mortgage Rule ("ATR/QM Rule"). By allowing CDFIs to originate loans which would otherwise not meet the ATR standards, CDFIs are able to expand access to homeownership, a driver in building wealth. KBRA estimates that there may be 35 CDFIs and $35 billion of assets that may be "suitable" for inclusion in RMBS pools. The full list of Certified CDFIs may be found on here.

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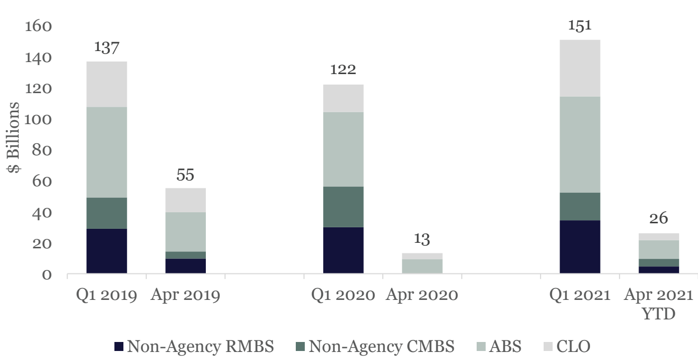
MARKET SUMMARY

As of mid-April, issuance of Non-Agency RMBS, CMBS, ABS and CLOs had reached $26 billion, which is double the volume recorded for the full month of April in 2020 and approximately half of the volume for the full month of April in 2019. ABS constitutes 42% of the market, contributing $68.8 billion to this year's volume thus far.

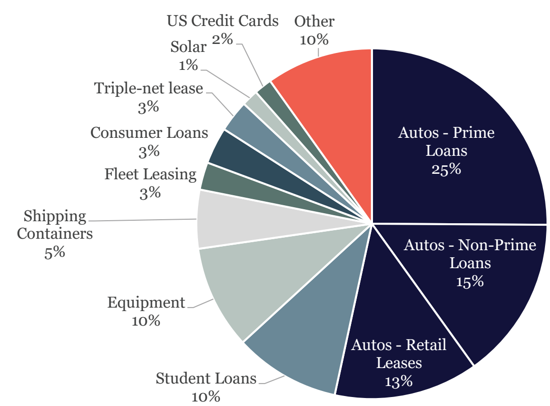
So far in 2021, SOFR-based securitizations have reached $21 billion, which is almost double the volume recorded for the entire year of 2020. Freddie Mac, through its Freddie K CMBS platform, has contributed 56% or $11 billion to the 2021 total.

Issuance for Non-Agency RMBS and CMBS, ABS, and CLO 2021 YTD ($177 Billion) Versus 2019, 2020



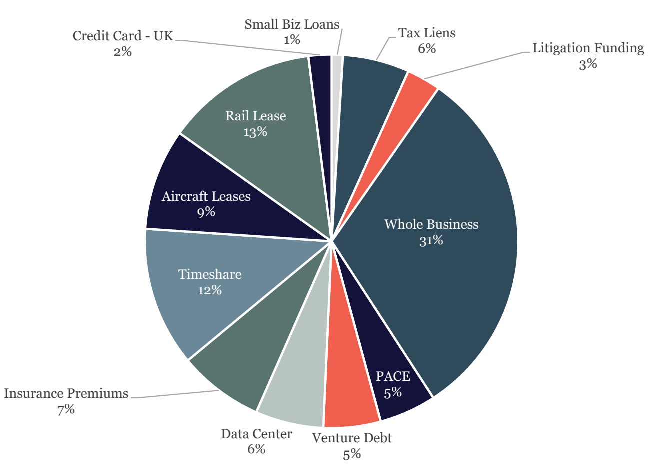
Source: Market Compilation

ABS Only - 2021 YTD: $68.8 billion



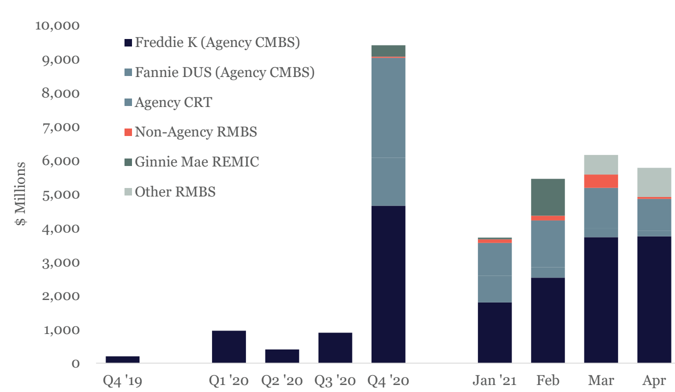
Source: Market Compilation

Other ABS Only - 2021 YTD: $6.8 Billion



Source: Market Compilation

SOFR Securitizations - 2019 to 2021 YTD: $33 Billion



Other MBS includes mortgage insurance-linked securities.
Data begins Q3 2019.
Source: Market Compilation

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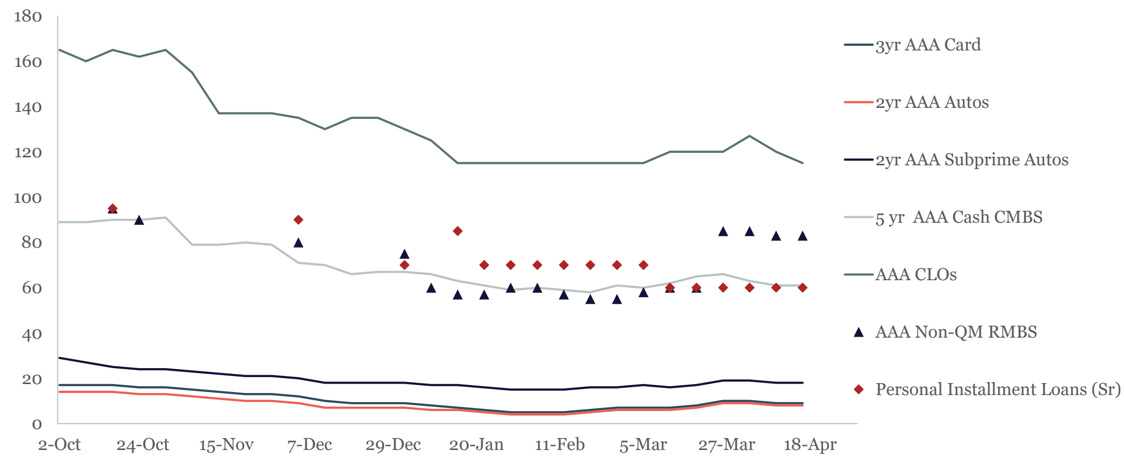
Secondary Market Bid-Ask Spreads (BP)



Source: Market Compilation

Secondary Market Bid-Ask Spreads		
(bps)	16-Apr	9-Mar
3yr AAA Card	9	9
2yr AAA Prime Autos	8	8
2yr AAA Subprime Autos	18	18
5yr AAA Cash CMBS	61	61
AAA CLOs	115	120